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Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 CTME-00 /124 W
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R 011445Z JUN 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6362
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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C O R R E C T E D C O P Y (TEXT)

USMTN ALSO FOR MISSION
USOECD ALSO FOR EMBASSY
PASS TREAS & FRB

EO 11652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK MAY 21

1. SUMMARY: SWISS FRANC APPRECIATED AGAINST MOST CURRENCIES. GOLD PRICE WAS STEADY. SWISS NATL BANK PRES CALLED FOR INCREASED CENTRAL BANK COORDINATION. SWISS STOCKS PRICES WERE STEADY. BANKERS CONTINUED TO URGE CAUTION ON US SHARE INVESTMENTS. CREDIT GROWTH DECLINED SLIGHTLY IN MARCH. GOVT FINANCIAL PACKAGE RAN INTO DIFFICULTY . BANKS NET EXTERNAL ASSETS
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ROSE SF 2.7 BILLION IN FIRST QUARTER 1978. OECD PUBLISHED REVIEW OF SWISS ECONOMY. EFTA MINISTERS MET IN GENEVA. ECONOMISTS URGED MORE SWISS FOREIGN INVESTMENT. CONSTRUCTION APPEARS TO BE STABLIZING. NUMBER OF PERSONS WORKING PART TIME DECLINED END SUMMARY.
2. FOREX GOLD:

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A) SF APPRECIATED AGAINST MOST MAJOR CURRENCIES.
DOLLAR RATE AGAINST SF ROSE TO SF 1.98 MONDAY FOLLOWING
REPORT OF REVISED 1977 US CURRENT ACCT DEFICIT AND ON
HOPES OF US NATURAL GAS PRICE COMPROMISE, THEN DECLINED
TO SF 1.9490 AFTER REPORT OF US APRIL TRADE DEFICIT
AND LOWER 1978 GROWTH RATE FORECAST FOR OECD
COUNTRIES. DEALERS EXPRESSED PARTICULAR CONCERN
OVER PROPOSALS FOR HIGHER US INFLATION RATE AND
THAT HIGH US INTEREST RATES COULD STIFLE US ECONOMIC
GROWTH.
B) GOLD PRICE REMAINED STEADY DESPITE US GOLD AUCTION.
THREE SWISS BANKS BOUGHT US GOLD; BANK LEU, SWISS
BANK CORP, AND UNION BANK OF SWITZERLAND. SWISS BANKS'
MARKETING SYSTEMS ENABLE THEM ABSORB INCREASED OFFER
WITHOUT AFFECTING PRICE. BANKERS SAID US IS PRESENTLY
THE MAJOR GOLD BUYER, PARTICULARLY US IEM FORECAST
1978 WORLD INDUSTRIAL DEMAND AT 1,400 TONS AGAINST GOLD
PRODUCTION 1,600 TONS. IF DEMAND FOR HOARDING AND
MINTING COINS AND MEDALS REMAINS AT 1977 LEVEL, SUPPLY
SHORTFALL OF 100 TONS IS POSSIBLE. THIS EXPLAINS CURRENT
UPWARD PRICED TREND IN SPITE OF DOLLAR EXCHANGE RATE
STABILITY. SOVIETS ARE EXPECTED TO HOLD BACK SALES IF
SOUTH AFRICA INCREASES ITS PRODUCTION TO MEET DEMAND.
SAID SOVIETS SOLD MOST OF THEIR ANNUAL GOLD PRODUCTION
(300 TO 350 TONS) DURING FIRST QUARTER 1978. THEREFORE,
IMF AND US GOLD SALES SHOULD FIND STRONG DEMAND AT HIGH
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MARKET PRICE. RATES FOLLOW:

	5/22 (OPEN)	5/26 (CLOSE)
SPOT DOLLAR	1.9790	).9490
FORWARD DISCOUNTS		
(PCT PER ANNUM)		
1 MONTH	7.21	7.16
2 MONTHS	6.55	6.64
3 MONTHS	6.55	6.59
6 MONTHS	6.54	6.52
12 MONTHS	6.06	6.17
SF/DM	93.04	91.86
GOLD	179.00	179.25

3. SNB VIEWS: SNB PRES LEUTWILER TOLD PRESS AT MEXICO
CITY INTL MONETARY CONFERENCE THERE IS NEED FOR BETTER
COORDINATED CENTRAL BANK FOREX INTERVENTION TO AVOID
INSTANCES WHEN SALES BY ONE BANK ARE OFFSET BY PURCHASES
OF ANOTHER IN SAME CURRENCY. HE URGED AGREEMENT
ON DEFINITION OF ERRATIC MARKETS, E.G., MORE THAN
ONE PCT PER DAY, EITHER BETWEEN DOLLAR AND A EURO-
PEAN CURRENCY OR BETWEEN ANY TWO EUROPEAN CURRENCIES.
LEUTWILER SUGGESTED US SWAP NETWORK BE SUPPLEMENTED
BY EUROPEAN SWAP ARRANGEMENTS. SUGGESTED US ACQUIRE

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FOREX RESERVES TO ENHANCE INTERVENTION CREDIBILITY,
ALONG WITH SWAP ARRANGEMENTS, BY SELLING GOLD, SDR'S
AND RAISING FOREX LOANS.
4. CAPITAL MONEY MARKETS:
A) STOCK PRICES SHOWED LITTLE MOVEMENT; INVESTOR
INTTEREST SHIFTED TO BONDS DUE TO SLIGHT UPWARD
INTEREST RATE MOVEMENT. HOWEVER, SKA SHARE INDEX
EDGED UPWARD TO 244.2. AVERAGE YIELD CONFEDERATION
BONDS REMAINED 3.48. AVERAGE SHARE YIELD WAS 3.1 PCT.
AVERAGE YIELD SWISS BONDS DECLINE D FROM 4 PCT END MAR
TO 3.89 PCT END APR. SEVERAL DOMESTIC BORROWERS
ANNOUNCED LOANS AT 3.5 PCT INTEREST; TWO FOREIGN
BORROWERS WILL ISSUE BONDS AT 4.25 PCT AND 5 PCT INTEREST.

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B) SWISS BANK CORP "BUY LIST" STRESSED CONTINUED IMPROVE-
MENT IN US INVESTMENT CLIMATE ENCOURAGED BY CURRENT
ANTI-INFLATION POLICY; BUT EXPECTED US GROWTH SLOW-
DOWN TOWARD END 1978 AND EARLY 1979 DUE TO TIGHTER
CONSUMER FINANCIAL POSITION AND DRAG ON BUSINESS INVEST-
MENT FROM RISING INTEREST RATES AND INFLATION. URGED

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CAUTION IN US SHARE INVESTMENT, BUT ENCOURAGED LONG-
TERM INVESTMENT AND POSSIBLE PROFIT-TAKING ON RECENT
STOCK PRICE ADVANCES. SUGGESTED MORE CONSERVATIVE IN-
VESTMENTS IN BANK MUTUAL FUNDS, BONDS AND GOLD TO BALANCE
RISKS.
C) SNB TOOK FURTHER STEPS TO REDUCE MONEY SUPPLY.
FOREX HOLDINGS DECLINED SF 543 MILLION; GIRO ACCTS FELL
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SF 681 MILLION. SNB AND GOVT AGREED TO RAISE FROM SF
500 MILLION TO SF 1 BILLION AMOUNT ABOVE WHICH GOVT
DEPOSITS AT SNB BEAR 2 PCT INTEREST TO REFLECT FALL IN
DISCOUNT RATE AND LESS USE OF GOVT ACCT TO REDUCE LIQUIDITY.
SNB MAY BULLETIN REPORTED DOMESTIC LOAN APPLICATIONS END
MAR ON ANNUAL BASIS WERE UP 7 PCT COMPARED 7.2 PCT INCREASE
END FEB. TOTAL OUTSTANDING BANK CREDIT WAS UP 7.4
PCT END MAR, COMPARED 7.8 PERCENT INCREASE END FEB.
NEW MORTGAGES WERE UP 7.7 PCT END MAR, SAME RATE AS
END MAR 1977. NEW LOANS TO PUBLIC CORPORATIONS WERE
UP 0.4 PCT. NEW BUILDING LOANS ROSE SF 577 MILLION
IN MAR , UP 0.1 PCT COMPARED MAR 1977, DUE TO 20.9
PCT INCREASE FOR SINGLE FAMILY DWELLING UNITS WHILE NEW
LOANS FOR FARM BUILDING DECLINED 41.8 PCT. LOAN DIS-
BURSEMENTS WERE UP 9.9 PCT COMPARED MAR 1977.

5. FEDERAL FINANCES: GOVT FINANCIAL PACKAGE INCLUDING
VALUE ADDED TAX (VAT) HAS RUN INTO CANTONAL OPPOSITION
TO PROPOSED SHIFT OF MEDICAL INSURANCE BENEFITS
AT ANNUAL COST SF 250 MILLION FROM FEDERRAL TO
CANTONAL AUTHORITIES. GOVT HAS AGREED TO ELIMINATE
THAT PROVISION FROM PACKAGE, BUT WOULD RESULT IN SF
500 MILLION DEFICIT IN 1981 WHEN BUDGET SHOULD BE
IN BALANCE. SOCIALISTS ARE EXPECTED TO PROPOSE TAX
ON FOREX TRANSACTIONS TO COVER DEFICIT. AUTHORITIES
NOW SAY VAT REFERENDUM MAY BE DELAYED UNTIL 1979;
VAT WOULD NOT BECOME EFFECTIVE UNTIL JAN 1980 IF
VOTERS APPROVE. RESULTS OF MAY 28 REFERENDUM UPHELD
GOVT MEASURES OF LAST FALL TO REDUCE EXPENDITURES BY
REDUCING PRICE SUBSIDY FOR BREAD; VOTERS REJECTED GO VT
MEASURES TO PROVIDE FEDERAL FINANCIAL SUPPORT FOR
UNIVERSITY RESEARCH PROGRAMS.
6. FOREIGN ASSETS: SNB REPORTED FOLLOWING NOMINAL
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CHANGES IN FOREIGN POSITIONS (INCLUDING SNB SWAPS)
OF SWISS BANKS FROM END 1977 TO END FIRST QUARTER 1978

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IN SF BILLIONS; NET EXTERNAL ASSETS WERE SF 34.8 BILLION
END MAR 1977:

	END: 1977	I-1978	CHANGE
A) BANKS OWN ACCTS			
ASSETS	78.6	79.2	0.6
LIABILITIES	56.5	54.2	-2.3
NET	22.1	25.0	2.9
B) FIDUCIARY ACCTS			
ASSETS	59.5	58.7	-0.8
LIABILITIES	51.9	51.3	-0.6
NET	7.6	7.4	-0.2
C) TOTAL NET	29.7	32.4	2.7

7. OECD REVIEW: SWISS REACTED SHARPLY TO OECD SECRETARIAT REVIEW OF SWISS ECONOMY RECOMMENDING GOVT STIMULATE DOMESTIC DEMAND BY FISCAL POLICY AIMING AT PROMOTING CONSUMPTION AND PRIVATE INVESTMENT, MAINTAIN EXPANSIONARY MONETARY POLICY AND LOW INTEREST RATES IN VIEW OF EXPECTED 1978 ECONOMIC SLOWDOWN. PRESS REPORTED SWISS OECD DELEGATION SAID SECRETARIAT REPORT FAILED TO NOTE SLIGHTLY EXPANSIONARY 1977 BUDGET POLICY AND EXTENT OF CHANGE IN SWISS ECONOMIC SITUATION CAUSED BY RECESSION; NOR DID IT SUFFICIENTLY STRESS NEED TO CONTROL INFLATION. HOWEVER, ONE EDITORIAL SPECULATED OECD SECRETARIAT SOUGHT TO HIGHLIGHT GAP BETWEEN MODEST SWISS L977 FORECAST AND ACTUAL ECONOMIC PERFORMANCE. ANOTHER EDITORIAL URGED GOVT HEED ADVICE TO TAKE ACTION; IF WORLD RECOVERY FALTERS, SELF-HELP MEASURES WILL BE ESSENTIAL.
8. EFTA: FED COUNCILOR HONEGGER TOLD EFTA MINISTERS SWISS RECOVERY DEPENDS ON IMPROVED INVESTMENT CLIMATE PARTICULARLY FOREX STABILITY AND GUARDING AGAINST PROTECTIONISM TO MAINTAIN FREE TRADE. SWISS ARE CONCERNED ABOUT POSSIBLE WORLD TRADE DOWNTURN; THEREFORE GOVT PLANS STIMULATE PRIVATE INVESTMENT TO DEVELOP NEW
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TECHNOLOGY. IN ADDITION TO EUROPEAN TARIFF REDUCTIONS ON INDUSTRIAL GOODS, HONEGGER CALLED FOR LIBERAL LIZATION ON SERVICES EXPORTS. SAID ENTERPRISES ARE LOSING CONFIDENCE DUE TO PROLONGED RECESSION, INFLATION, UNEMPLOYMENT AND NEW PROTECTIONISM. SWISS WELCOME EFFORTS TO RESTORE CONFIDENCE AND HOPED OECD MINISTERIAL WOULD SET BASIS FOR CONCERTED ACTION ON AS MANY POINTS AS POSSIBLE. NORWEGIAN MINISTER SAID NORWAY WOULD HOST CONFERENCE ON PROBLEMS OF UNEMPLOYMENT. MOST MINISTERS STRESSED CONCERN THAT PROTECTIONISM PREVENTS NON-INFLATIONARY GROWTH.
9. FOREIGN INVESTMENT: SEVERAL ECONOMISTS URGED SWISS INDUSTRIES INCREASE INVESTMENTS ABROAD TO MAXIMIZE EARNINGS AND PROFITS, PARTICULARLY WHILE SWISS UNEMPLOY-

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MENT IS LOW AND SF EXCHANGE RATE IS HIGH. URGED INDUSTRY INTENSIFY EFFORTS IN HIGH TECHNOLOGY SPECIALIZATION AND INNOVATION TO STRENGTHEN DOMESTIC INDUSTRIAL COMPETITIVE-NESS. ALSO, RECOMMENDED INCREASED COOPERATION BETWEEN RELATED INDUSTRIAL BRANCHES, ESPECIALLY EQUIPMENT SUPPLIERS AND MANUFACTURERS, TO COORDINATE PLANNING EFFORTS TO REDUCE COSTS. SEVERAL GOVT OFFICIALS SUPPORTED THESE VIEWS.
10. CONSTRUCTION: GOVT REPORTED 1977 CONSTRUCTION ROSE 1.5 PCT TO SF 18.8 BILLION; FIRST ADVANCE SINCE 1973. PUBLIC BUILDING DECLINED TO SF 8.4 BILLION IN 1977; PRIVATE CONSTRUCTION ROSE 5.7 PCT TO SF 10.4 BILLION. LATEST 1978 FORECAST IS OVERALL 1.6 PCT GROWTH TO SF 20.5 BILLION. GOVT INVESTMENT IS EXPECTED TO DECLINE 8.5 PCT IN 1978; NEW HOUSING SHOULD INCREASE 13 PCT. INDUSTRIAL INVESTMENT IS EXPECTED TO RISE IF CONSTRUCTION COSTS REMAIN STABLE.
11. LABOR: NUMBER OF FIRMS WORKING REDUCED HOURS END APR WAS 369, COMPARED 540 END MAR AND 783 END APR
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1977. SOME 8,081 PERSONS WERE WORKING PART TIME END APR COMPARED 9,133 END MAR AND 13,097 END APR 1977.
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